feature article

How to Transition from *Assessing* Performance to *Enhancing* Performance With Balanced Scorecard Goal Action Plans

Thomas L. Albright, Christopher M. Burgess, Aleecia R. Hibbets, and Michael L. Roberts

The balanced scorecard (BSC) has achieved widespread acceptance as a strategic performance measurement tool. This article builds on the BSC process by showing how goal action plans *can be used to help organizations translate strategic goals into actionable employee behavior to improve bottom-line performance.*

© 2010 Wiley Periodicals, Inc.

INTRODUCTION

The first installment of our two-article discussion of the balanced scorecard (BSC) addressed ways to simplify multimeasure performance evaluations (Albright, Burgess, Hibbets, & Roberts, 2010). This article takes the next step by addressing how to develop successful goal action plans based on the BSC. Upon completing the evaluation using a mechanically derived scorecard metric, together with any necessary adjustments, managers should consider using the scorecard to direct future activities.

The scorecard enhances performance evaluation by allowing managers to walk through the overall assessment and discuss how performance is tied to bonus, incentive, or ranking systems. In addition, the scorecard allows management to document the overall performance process, including subsequent discussions. A key element is engaging the employee in an action plan. Managers and subordinates can agree on a target date to accomplish the items in the action plan, the resources required to achieve the targets, potential obstacles, and steps necessary to meet and overcome the obstacles.

CHARACTERISTICS OF SUCCESSFUL SCORECARD IMPLEMENTATIONS

Our experience suggests that successful implementations of the balanced scorecard include five elements (Albright, Burgess, Davis, & Juras, 2007):

1. *Fairness, or equality, in the assessment process.* Prior research has identified fairness as important in compensation policy (Kahneman & Thaler, 1991; Lee, Law, & Bobko,1999; Sweeney & McFarlin, 1993). Both procedural justice (the perceived fairness of how outcomes are determined), as well as distributive justice (the perceived

© 2010 Wiley Periodicals, Inc.

Published online in Wiley Online Library (wileyonlinelibrary.com).
DOI 10.1002/jcaf.20629

fairness of outcomes)—distinct, but related constructs—are important to employees (Folger, 1987). One component of distributive justice is the "contributions rule" concept of fairness in which individuals are rewarded proportionally to their contributions (Leventhal, 1976). Libby, Salterio, and Webb (2004) and Roberts, Albright, and Hibbets (2010) specifically demonstrate the importance of fairness to BSC evaluations.

2. *Communication to understand organizational goals and individual contributions to these goals.* Banker, Chang, and Pizzini (2004) document the importance of communicating how performance measures link to strategies so that users gain a better understanding of the importance of measures and, as a result, the researchers found scorecard users placed more weight on relevant measures. At a recent scorecard implementation at a financial institution, only two tellers out of 250 could articulate the company's strategy. From our experience with other scorecard implementations, this statistic was not surprising. Lower-level employees often cannot articulate a company's strategy, yet these same employees often are the primary interface between an organization and its customers. Successful implementations help ensure communication of corporate goals and achieve an understanding of linkages between daily actions and these goals.
3. *Involvement in developing measures and standards.* Communication, as discussed above, is necessary for involvement. In our experience, top-down assignment of performance metrics does little to establish buy-in and ownership of the scorecard process. Dilla and Steinbart (2005) demonstrated that participation is better after prior involvement in developing scorecards. Users who developed their own scorecards were able to use the scorecards to make evaluations more effectively than when using scorecards developed by someone else.
4. *Stretch goals.* Management can encourage employees throughout the organization to establish "tight, but attainable" goals. Mihaly Csikszentmihalyi (1990) has documented the considerable benefits that result when individuals are challenged, or challenge themselves, with goals that are targeted at the correct level of their abilities—not so easy as to be boring or so difficult as to be frustrating. We have observed a demotivating effect in scorecard implementations when goals are seen as either too easy or too aggressive.
5. *Meaningful reward systems.* Effective BSC implementations link performance to meaningful employee rewards. Bonner, Hastie, Sprinkle, and Young (2000) review relevant research on financial incentives on performance, finding that financial incentives are very effective when there is an appropriate match between the individual's skill level and job/task requirements. In our experience, successful implementations include meaningful rewards in the form of bonuses, raises, or promotions. Rewards can be based on individual or business-unit performance.

> *Successful implementations help ensure communication of corporate goals and achieve an understanding of linkages between daily actions and these goals.*

GOAL ACTION PLANS

When developing goal action plans to direct future performance, management should consider each of the five characteristics of successful implementations. Establishing effective goal action plans requires communication between a manager and subordinate. Because communication ensures involvement, employees typically report a sense of ownership and empowerment.

Goal action plans are not the same as quota systems, which have garnered a negative connotation in some industries. For example, quota systems have been used in some financial services organizations with limited success. Based on a quota system, for example, management expected loan officers to make a certain number of sales calls each week, identify prospects, and report back to management at the end of the week. This system proved ineffective because management set the goals without input from employees. As a result, organizations had very little buy-in of management's action plan. In addition, because management established the goals, they did not receive the benefit of new ideas generated by a discussion with employees.

DOI 10.1002/jcaf

© 2010 Wiley Periodicals, Inc.

At a recent scorecard implementation at a banking institution, tellers were discussing scorecard metrics with management. A strategic objective of the organization was to reduce the amount and number of nonperforming and past-due loans. Management stated that since tellers had no influence on the outcome of this objective, there was little need to discuss it. However, a teller suggested that by checking for past-due loans when a customer made a deposit, she could influence this objective by first applying any funds deposited toward the delinquent balance. Thus, the scorecard process and goal action plans helped communicate objectives and identify actionable items to support the objectives. Goal action plans involving both managers and employees result in better plans, higher levels of satisfaction, more new ideas, and greater reported levels of employee motivation.

The purpose of goal action plans is to achieve agreement between an employee and supervisor on the steps an employee is expected to take to achieve a certain goal. Based on our experience with developing goal action plans, we recommend the following five-step process for successful implementation of goal action plans:

1. Set a target date(s) for expected future performance outcomes.
2. Identify resources necessary to achieve success.
3. Identify potential obstacles.
4. Define specific steps to accomplish the plan's objectives.
5. Have a formal review of the goal action plan by management.

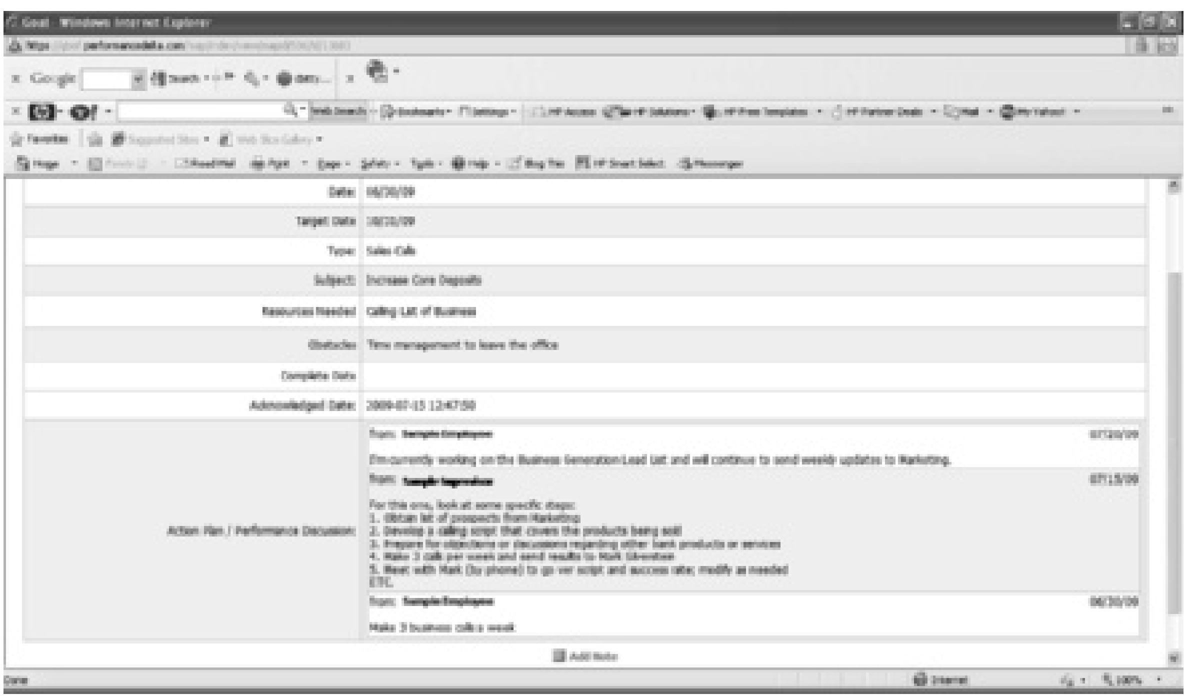
Exhibit 1 illustrates a goal action plan developed by a financial institution. Key components of the plan are considered in the sections that follow.

Target Date

To be effective, action plans must establish a target date for completion. Although there may be additional due dates within the plan, the target date should drive activities and priorities. To keep the plan on track, there should be several "check-in" requirements for the employee to update the supervisor on the progress made. As Exhibit 1 illustrates, on June 30, 2009, the

Exhibit 1

The Goal Action Plan



© 2010 Wiley Periodicals, Inc. DOI 10.1002/jcaf

supervisor and employee agreed to set a goal of increasing core deposits by October 31, 2009.

Resources Needed

Next, the employee and supervisor should work together to identify resources needed to successfully complete the plan. If the resources are not readily available, the plan should specifically state how all resources will be obtained. Examples include use of reports, access to various systems, and relief from certain time commitments. The goal action plan shown in Exhibit 1 identifies a "calling list of business" as a necessary resource.

Potential Obstacles

It is vital that managers and employees identify all potential obstacles. These obstacles pose a legitimate challenge to the successful completion of an action plan and cannot always be overcome by the employee alone. For example, an employee may require two hours out of each day to complete the action plan. Often a supervisor will work with the employee to reassign responsibilities to create the time needed to overcome this obstacle. Likewise, if an employee requires access to certain information systems, the supervisor may make the appropriate requests. Alternatively, the supervisor may find a different way to provide the information to the employee. In Exhibit 1, "time management to leave the office" is identified as an obstacle. To increase core deposits, the employee needs a calling list of business, as well as time to prospect for clients and to make sales calls.

Specific Steps

The plan itself must define the specific steps the employee will take to accomplish the plan's objective. Exhibit 1 illustrates a five-step action plan/performance discussion related to the goal of increasing core deposits:

1. Obtain a prospect list.
2. Develop a calling script.
3. Prepare for objections or discussions of other bank products.
4. Make three calls per week.
5. Meet with supervisor to review script and success rate.

Steps to accomplish the plan's objectives may be modified for employees with different abilities and experience levels.

> *It is vital that managers and employees identify all potential obstacles. These obstacles pose a legitimate challenge to the successful completion of an action plan and cannot always be overcome by the employee alone.*

In the end, the specific steps should answer the question: How much, of what, and by when? If the steps are not specific, the supervisor should request the employee to modify the steps to add the required information. For example, an employee may plan to "contact customers" as an activity associated with a goal of increasing the number of checking accounts at a bank. Details should identify the customers to be contacted and the timing of the contact. In addition, the plan should specify how the contact will be made (e.g., by letter, phone call, or e-mail) and the number of customers to be contacted. A more specific step may be written as follows: "By January 15, call 20 customers per day from the loan-customer database to discuss checking account options, and set appointments to meet in person." The goal action plan should be considered an iterative process between the employee and supervisor. As such, management review is a critical component of the goal action plan.

Review by Management

In all of the steps considered, the involvement of both the employee and supervisor is crucial to the success of a goal action plan. Goal action plans work only if both the supervisor and employee are in agreement and the supervisor stays actively involved by overcoming obstacles and providing required resources. Action plans may be initiated by either the employee or the supervisor. However, employees are more likely to work with the supervisor if the employee initiates the plan, determines the steps needed, identifies the obstacles expected to be encountered, and describes the resources needed.

Establishing the frequency for reviews is important. Scorecard measures can be updated at different intervals. For example, a loan officer in a financial institution will update actual performance with target performance in monthly intervals. However, reverse evaluation scores (employees evaluating supervisors) typically occur annually.

A "focused" performance discussion occurs at a high level that takes about 15 minutes

DOI 10.1002/jcaf
© 2010 Wiley Periodicals, Inc.

per month; meetings should be short to avoid overwhelming an employee. The purpose is to identify areas where an employee is "on target" and to identify "opportunities for improvement." Topics such as work schedules, personnel issues, and time-off concerns generally are not appropriate for these high-level monthly meetings. For example, a loan officer's scorecard may contain measures for loan growth, loan documentation exceptions, and past-due loans. A quick scan of the scorecard may indicate that the officer is performing well on loan growth and past-due loan targets but underperforming on loans having documentation exceptions. For example, each week the bank produces a list of items that must be obtained to maintain a current loan file (e.g., loans with expired insurance). The officer must contact the borrower and obtain new insurance documentation. The review provides an opportunity to discuss why the loan officer is falling behind in working through his or her exception list. Generally, time is identified as a factor. A supervisor may instruct the loan officer to identify resources needed to achieve targets. Further, the loan officer can be instructed to revise the action plan, identify resources needed to meet or exceed the goal, and to report back by the end of the week.

In summary, the monthly meeting acknowledges the following:

- Where do I stand?
- You have directed me.
- I will develop a specific plan to achieve targets by a specific date.

BENEFITS

The BSC, together with goal action plans, can offer a number of benefits to adopting organizations.

Communication

In one organization, feedback from goal action plans showed that more communication from the top level of management was necessary. As a result, the CEO set up a 30-minute monthly teleconference to respond to and address issues important to employees.

Employee Satisfaction

In our experience with scorecard implementations, communication of job performance and its frequency results in increased employee satisfaction. During a three-year period after implementing a BSC approach with goal action plans, a financial institution reported the following results from an employee survey:

> *In our experience with scorecard implementations, communication of job performance and its frequency results in increased employee satisfaction.*

- How satisfied are you with the frequency of communication related to job performance? Average responses increased 25 percent (from 2.95 to 3.70 on a five-point scale).
- How satisfied are you with the level of communication within this organization? Average responses increased 44 percent (from 2.54 to 3.67 on a five-point scale).
- How satisfied are you with the current performance review system? Average responses increased 19 percent (from 2.82 to 3.36 on a five-point scale).

Labor Law

The BSC process also provides benefits from a labor law perspective because the evaluation process is documented. For example, communication between managers and subordinates provides evidence that performance expectations were clearly identified and that employees were given an opportunity to take corrective action.

Regulation

In the financial services industry, regulators conduct safety and soundness examinations. These examinations consider various aspects of bank administration, such as sufficient capital, asset quality, management, and liquidity.

The BSC, together with goal action plans, documents the management component of the examination. Evidence is in the form of clearly defined expectations, documentation of the nature and frequency of communication between management and employees, and progress toward objectives.

CONCLUSION

Developing goal action plans is a necessary step after implementing performance evaluations using a BSC. Based on our experiences over a decade with scorecard implementations in financial institutions, we believe that the process described in

© 2010 Wiley Periodicals, Inc. DOI 10.1002/jcaf

this article can help organizations translate strategic goals into actionable items that affect bottom-line performance.

REFERENCES

Albright, T., Burgess, C., Davis, S., & Juras, P. (2007). Making a balanced scorecard program a success: Beyond the measure-selection process. Journal of Corporate Accounting & Finance, 18(4), 65–72.

Albright, T., Burgess, C., Hibbets, A., & Roberts, M. (2010). Four steps to simplify multimeasure performance evaluations using the balanced scorecard. Journal of Corporate Accounting & Finance, 21(5), 63–68.

Banker, R. D., Chang, H., & Pizzini, M. J. (2004). The balanced scorecard: Judgmental effects of performance measures linked to strategy. The Accounting Review, 79(1), 1–23.

Bonner, S. E., Hastie, R., Sprinkle, G. B., & Young, S. M. (2000). A review of the effects of financial incentives on performance in laboratory tasks: Implications for management accounting. Journal of Management Accounting Research, 12, 19–64.

Csikszentmihalyi, M. (1990). Flow: The psychology of optimal experience. New York: Harper & Row.

Dilla, W. N., & Steinbart, P. J. (2005). Relative weighting of common and unique balanced scorecard measures by knowledgeable decision makers. Behavioral Research in Accounting, 17, 43–53.

Folger, R. (1987). Distributive and procedural justice in the workplace. Social Justice Research, 1, 143–159.

Kahneman, D., & Thaler, R. (1991). Economic analysis and the psychology of utility: Applications to compensation policy. American Economic Review, 81, 1325–1348.

Lee, C., Law, K. S., & Bobko, P. (1999). The importance of justice perceptions on pay effectiveness: A two year study of a skill-based pay plan. Journal of Management, 25, 851–873.

Leventhal, G. S. (1976). Fairness in social relationships. In J. Thibaut, J. Spense, & R. Carson (Eds.), Contemporary topics in social psychology (pp. 211–239). Morristown, NJ: General Learning Press.

Libby, T., Salterio, S., & Webb, A. (2004). The balanced scorecard: The effects of assurance and process accountability on managerial judgment. The Accounting Review, 79, 1075–1094.

Roberts, M. L., Albright, T. A., & Hibbets, A. R. (2010). Effects of intrinsic motivation on utilization of balanced scorecard measures. Working paper, The University of Alabama.

Sweeney, P. D., & McFarlin, D. B. (1993). Workers' evaluations of the "ends" and the "means": An examination of four models of distributive and procedural justice. Organizational Behavior and Human Decision Processes, 55(1), 23–40.

Thomas L. Albright is an accounting professor at the University of Alabama in Tuscaloosa. **Christopher M. Burgess** is president and CEO of PerformanceDelta, LLC, in Ridgeland, Mississippi. **Aleecia R. Hibbets** is an accounting professor at the University of Louisiana Monroe. **Michael L. Roberts** is an accounting professor at the University of Colorado at Denver.

DOI 10.1002/jcaf © 2010 Wiley Periodicals, Inc.